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SUBJECT: MADRID WEEKLY ECON/COMMERCIAL/AG UPDATE, JULY
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ECONOMIC GROWTH BARELY POSITIVE IN SECOND QUARTER

[1](#)1. (U) The Bank of Spain announced July 30 that the economy grew only 0.1% from the first to the second quarter of 2008, down from 0.3% growth in the first quarter. The economy has grown 1.8% since the second quarter of 2007. The bank said the adjustment in the year's first half -- particularly pronounced in private consumption and unemployment -- was more intense than had been expected. June retail sales were 8% below their level of June 2007. (Note: Unlike U.S. figures, Spanish quarterly growth figures are not annualized.) (All Media, 7/31)

INFLATION RISES TO 5.3% IN JULY

[1](#)2. (U) According to an estimate by Spain's National Statistics Institute (INE), inflation reached 5.3% (year on year) in July. In July of 2007, it was only 2.3%. If the final rate is the same as the estimate, as it usually is, this will be the highest rate since 1992. In the inflation section of its July 30 announcement (see above), the Bank of Spain noted that compensation increased 4% between June 2007 and June 2008 and criticized the effect automatic salary adjustments for their inflationary impact. (All Media, 7/31 and 8/1)

ZAPATERO, UNIONS, EMPLOYERS AGREE ON SOCIAL COMPACT PRINCIPLES

[1](#)3. (U) On July 29, President Zapatero and the heads of Spain's major labor unions and business associations signed a declaration on the guiding principles for the new social compact legislation to be drafted in the fall. The social compact process is a longstanding tool used to reach consensus on key issues such as worker salaries, hiring guidelines, and unemployment benefits. Although the details

of the new legislation remain to be worked out, the July 29 agreement establishes the guiding principles of creating jobs, spurring economic growth, and maintaining social benefits for workers. In a concession to business associations CEOE and CEPYME, the compact legislation will also place importance on facilitating easy access to financing and instituting measures to improve the skill sets of Spanish workers. (Note: Spain has one of the most rigid labor markets in Europe as well as low productivity rates. The social compact process was an opportunity to liberalize labor requirements, but Zapatero is leaning towards maintaining the generous benefits that Spanish workers enjoy). (All Media, 7/30)

ENERGY-SAVING MEASURES ANNOUNCED, APPROVED

14. (U) On July 30, Industry Minister Sebastian announced 31 energy-saving measures for 2008-2011 that were approved by the Council of Ministers on August 1. The aim is to save the equivalent of 10% of the country's annual oil imports. The GOS estimates that the measures will cost 245 million euros but lead to 4 billion euros in savings. Among the measures were:

Transportation

- Introducing a pilot project to use electric cars;
- Requiring 20% biofuel use by GOS vehicle fleets in 2009 and 7% overall biofuel use by 2011;
- Granting incentives to retire vehicles older than 15 years and replace them with efficient vehicles;
- Reducing speed limits by 20% on city beltways and access roads (Note: we are skeptical this will work);
- Developing by 2012 bus-only lanes on roads;
- Starting buses to take workers from their homes to

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government offices;

- Encouraging use of subways by requiring mobile phone operators to provide coverage underground and by expanding weekend operating hours;
- Promoting bicycle use in cities;
- Allowing civilian aircraft to use military air corridors to reduce flying distances;

Other

- Encouraging the development of energy-saving services companies;
- Increasing from 60 million to 120 million euros the Energy Diversification and Conservation Institute (IDAE) budget to support large companies' energy-saving projects;
- Changing government procurement rules to give preference to energy efficiency;
- Requiring government buildings to have minimum temperatures of 79 in summer and maximums of 70 in winter (26 and 21 Centigrade);
- Using some of a 500 million-euro-per-year tourism renovation fund to finance energy-saving measures at tourist facilities
- Working within the EU to accelerate to 2012 the elimination of low-efficiency lightbulbs;
- Giving one high-efficiency light bulb in 2009 and one in 2010 to each household;
- Reducing highway lighting by 50%; and
- Requiring ministries to reduce their first-half 2009 electricity consumption by 10% from first-half 2008 levels. (All Media, 7/31; Council of Ministers website, 8/1)

GAS NATURAL TO BUY 45% STAKE IN UNION FENOSA

15. (U) Gas Natural, the country's largest natural gas distributor, announced July 30 it would purchase a 45 percent stake (7.6 billion euros) in electricity and gas company Union Fenosa in what will be one of the largest Spanish stock transactions in recent years. Barcelona-based Gas Natural

will purchase the stake from Spanish construction firm ACS, which will use the proceeds to pay off debt and seek a controlling interest in electricity company Iberdrola. (All Media, 7/31)

IBERIA IN TALKS TO MERGE WITH BRITISH AIRWAYS

16. (U) Spain's largest airline, Iberia, and British Airways announced yesterday that the two companies were in merger talks which, if successful, would create the third largest airline in the world. Combined revenues of the two companies would total 16.5 billion euros, about 60% from BA. BA and Iberia said that the negotiations would take months to finalize, but that it was already agreed that both the BA and Iberia brands would be retained under a combined holding group. The decision to consolidate comes amidst increasing energy prices and overall pressures on the airline industry globally. (Financial Times, 7/30; El Pais, 7/30)

U.S. COMPANIES AMONG BEST PLACES TO WORK

17. (U) Coca-Cola and General Electric are the second and third best companies to work for in Spain, behind only Banco Santander, out of 142 that participated in Actualidad Economica magazine's annual ranking. Coke and GE had the best scores for employee training and scored well in all facets of the survey. Other U.S. companies ranked in the top 10 were Kimberly-Clark, Cisco, and EMC. (Actualidad Economica, 7/25 issue)

Aguirre